

**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administrative Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

The enclosed report prepared by Kem, Duguid & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements.

We engaged Kem, Duguid & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Kem, Duguid & Associates, PSC evaluated Marshall County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
MARSHALL COUNTY FISCAL COURT

June 30, 2008

Kem, Duguid & Associates, PSC has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2008. We have issued unqualified opinions, based on our audit and the report of the other auditors, on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Marshall County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$19,694,111 as of June 30, 2008. The fiscal court had unrestricted net assets of \$5,567,778 in its governmental funds as of June 30, 2008, with total net assets of \$19,579,787. In its enterprise fund, total net cash and cash equivalents were \$114,324 with total net assets of \$114,324. The fiscal court's discretely presented component units had net assets of \$1,945,365 as of June 30, 2008. The discretely presented component units had net cash and cash equivalents of \$857,864. The fiscal court had total debt principal as of June 30, 2008 of \$6,614,512 with \$291,899 due within the next year.

Report Comments:

- The Fiscal Court Lacks Adequate Segregation Of Duties
- The Fiscal Court Should Fix Compensation For County Employees

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.

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MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Marshall County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marshall County Refuse Disposal District, which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Marshall County Refuse Disposal District, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Marshall County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marshall County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2008 on our consideration of Marshall County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comments:

- The Fiscal Court Lacks Adequate Segregation Of Duties
- The Fiscal Court Should Fix Compensation For County Employees

Respectfully submitted,

Kem, Duguid & Associates, P.C.

Kem, Duguid & Associates, PSC
Certified Public Accountants

October 22, 2008

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Mike Miller	County Judge/Executive
Jerry English	Magistrate
Terry Anderson	Magistrate
Bob Gold	Magistrate

Other Elected Officials:

Jeff Edwards	County Attorney
Roger Ford	Jailer
Dan Duke	County Clerk
Carol Fisk	Circuit Court Clerk
Kevin Byars	Sheriff
Tony Henson	Property Valuation Administrator
Mitchell Lee	Coroner

Appointed Personnel:

Tim York	County Treasurer
Angie Murphy	Occupational Tax Collector
Emily West	Finance Officer
Gary Atkins	Road Supervisor
Marsha Penney	911 Administrator
Laurie Ford	Jail Administrative Assistant/Bookkeeper

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MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government			Component Unit
	Governmental	Business-Type		Marshall County
	Activities	Activities	Totals	Refuse Disposal District
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 6,115,290	\$ 114,324	\$ 6,229,614	\$ 857,864
Investments	680,014		680,014	
Total Current Assets	6,795,304	114,324	6,909,628	857,864
Noncurrent Assets:				
Notes Receivable	26,400		26,400	
Capital Assets - Net of Accumulated Depreciation				
Construction In Progress	1,346,781		1,346,781	
Land and Land Improvements	2,014,232		2,014,232	633,099
Buildings	10,740,931		10,740,931	135,539
Vehicles and Equipment	2,014,409		2,014,409	345,361
Infrastructure	3,256,242		3,256,242	
Total Noncurrent Assets	19,398,995		19,398,995	1,113,999
Total Assets	26,194,299	114,324	26,308,623	1,971,863
LIABILITIES				
Current Liabilities:				
Bonds Payable	285,000		285,000	
Financing Obligations	6,899		6,899	
Payroll Liabilities				26,498
Total Current Liabilities	291,899		291,899	26,498
Noncurrent Liabilities:				
Bonds Payable	6,275,000		6,275,000	
Financing Obligations	47,613		47,613	
Total Noncurrent Liabilities	6,322,613		6,322,613	
Total Liabilities	6,614,512		6,614,512	26,498
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	12,758,083		12,758,083	1,113,999
Restricted For:				
Capital Projects	1,232,962		1,232,962	
Debt Service	20,964		20,964	
Unrestricted	5,567,778	114,324	5,682,102	831,366
Total Net Assets	\$ 19,579,787	\$ 114,324	\$ 19,694,111	\$ 1,945,365

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 6,281,278	\$ 430,565	\$ 332,782	\$ 211,041
Protection to Persons and Property	2,299,783	1,856,024	135,415	
General Health and Sanitation	411,957		140,308	
Social Services	446,056			
Recreation and Culture	640,637			
Roads	2,281,499	18,854	1,083,059	
Other Transportation Facilities	6,734			
Debt Service	363,591		486,400	
Capital Projects	75,000			1,795,177
Total Governmental Activities	12,806,535	2,305,443	2,177,964	2,006,218
Business-type Activities:				
Jail Canteen	33,391	47,824		
Total Business-type Activities	33,391	47,824		
Total Primary Government	\$ 12,839,926	\$ 2,353,267	\$ 2,177,964	\$ 2,006,218
Component Units:				
Marshall County Refuse Disposal District	1,971,911	3,964	53,539	
Total Component Units	\$ 1,971,911	\$ 3,964	\$ 53,539	\$

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
Occupational Taxes
Excess Fees
Miscellaneous Revenues
Transfer from Fiscal Court
Interest Earned

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Marshall County Refuse Disposal District
\$ (5,306,890)	\$	\$ (5,306,890)	\$
(308,344)		(308,344)	
(271,649)		(271,649)	
(446,056)		(446,056)	
(640,637)		(640,637)	
(1,179,586)		(1,179,586)	
(6,734)		(6,734)	
122,809		122,809	
1,720,177		1,720,177	
(6,316,910)		(6,316,910)	
	14,433	14,433	
	14,433	14,433	
(6,316,910)	14,433	(6,302,477)	
			(1,914,408)
			(1,914,408)
1,414,493		1,414,493	
165,145		165,145	
281,645		281,645	
1,685,700		1,685,700	1,549,596
4,241,134		4,241,134	
384,930		384,930	
286,079		286,079	3,005
			250,000
257,692	417	258,109	32,635
8,716,818	417	8,717,235	1,835,236
2,399,908	14,850	2,414,758	(79,172)
17,179,879	99,474	17,279,353	2,024,537
\$ 19,579,787	\$ 114,324	\$ 19,694,111	\$ 1,945,365

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Jail Fund	Occupational Tax Fund	Occupational Tax Administrator Fund
ASSETS					
Cash and Cash Equivalents	\$ 856,204	\$ 8,671	\$ 267,448	\$ 380,815	\$ 3,538,141
Investments					
Total Assets	<u>\$ 856,204</u>	<u>\$ 8,671</u>	<u>\$ 267,448</u>	<u>\$ 380,815</u>	<u>\$ 3,538,141</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 35,829	\$ 151	\$ 17,036	\$	\$ 505,523
Unreserved:					
General Fund	820,375	8,520	250,412		
Special Revenue Funds				380,815	3,032,618
Capital Projects Fund					
Debt Service Fund					
Total Fund Balances	<u>\$ 856,204</u>	<u>\$ 8,671</u>	<u>\$ 267,448</u>	<u>\$ 380,815</u>	<u>\$ 3,538,141</u>

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

Federal Grant Fund	Corporation Justice Center Debt Service Fund	Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$ 265,574	\$ 20,964	\$ 573,912 659,050	\$ 224,525	\$ 6,115,290 680,014
<u>\$ 265,574</u>	<u>\$ 20,964</u>	<u>\$ 1,232,962</u>	<u>\$ 224,525</u>	<u>\$ 6,795,304</u>
\$ 236,110	\$	\$	\$	\$ 794,649
				1,079,307
29,464			224,525	3,667,422
		1,232,962		1,232,962
	20,964			20,964
<u>\$ 265,574</u>	<u>\$ 20,964</u>	<u>\$ 1,232,962</u>	<u>\$ 224,525</u>	<u>\$ 6,795,304</u>

Reconciliation Of The Balance Sheet - Governmental Funds To The Statement of Net Assets:

Total Fund Balances	\$ 6,795,304
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the funds.	27,128,037
Accumulated Depreciation	(7,755,442)
Notes Receivable	26,400
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(54,512)
Bonded Debt	<u>(6,560,000)</u>
Net Assets Of Governmental Activities	<u>\$ 19,579,787</u>

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	General Fund	Road Fund	Jail Fund	Occupational Tax Fund
REVENUES				
Taxes	\$ 2,261,741	\$	\$	\$
In Lieu Tax Payments	1,012,021			
Excess Fees	384,930			
Licenses and Permits	110,566			
Intergovernmental	341,025	1,083,059	1,954,064	
Charges for Services	316,120	18,854	37,375	
Miscellaneous	247,137	2,843	30,490	703
Interest	31,617	15,130	8,155	17,605
Total Revenues	<u>4,705,157</u>	<u>1,119,886</u>	<u>2,030,084</u>	<u>18,308</u>
EXPENDITURES				
General Government	2,172,391			37,926
Protection to Persons and Property	522,004		1,320,024	
General Health and Sanitation	140,958			200,000
Social Services	440,649			
Recreation and Culture	82,683			605,433
Roads		1,074,515		1,167,511
Other Transportation Facilities				
Debt Service	10,000			
Capital Projects	75,000			
Administration	2,344,016	418,734	508,310	159,053
Total Expenditures	<u>5,787,701</u>	<u>1,493,249</u>	<u>1,828,334</u>	<u>2,169,923</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,082,544)</u>	<u>(373,363)</u>	<u>201,750</u>	<u>(2,151,615)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	1,561,041	150,000		1,900,000
Transfers To Other Funds	(266,155)			
Total Other Financing Sources (Uses)	<u>1,294,886</u>	<u>150,000</u>		<u>1,900,000</u>
Net Change in Fund Balances	212,342	(223,363)	201,750	(251,615)
Fund Balances - Beginning	<u>643,862</u>	<u>232,034</u>	<u>65,698</u>	<u>632,430</u>
Fund Balances - Ending	<u><u>\$ 856,204</u></u>	<u><u>\$ 8,671</u></u>	<u><u>\$ 267,448</u></u>	<u><u>\$ 380,815</u></u>

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Occupational Tax Administrator Fund	Federal Grant Fund	Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$ 4,241,134	\$	\$	\$	\$ 273,221	\$ 6,776,096
					1,012,021
					384,930
					110,566
	2,006,218	486,400		140,308	6,011,074
					372,349
				6,944	288,117
106,812	8,170	1,064	57,785	11,354	257,692
4,347,946	2,014,388	487,464	57,785	431,827	15,212,845
335,539					2,545,856
				391,591	2,233,619
	1,807,478				2,148,436
					440,649
					688,116
					2,242,026
				6,734	6,734
		635,837			645,837
					75,000
				105,416	3,535,529
335,539	1,807,478	635,837		503,741	14,561,802
4,012,407	206,910	(148,373)	57,785	(71,914)	651,043
		149,560	114,836	1,319	3,876,756
(3,250,000)	(211,041)		(149,560)		(3,876,756)
(3,250,000)	(211,041)	149,560	(34,724)	1,319	
762,407	(4,131)	1,187	23,061	(70,595)	651,043
2,775,734	269,705	19,777	1,209,901	295,120	6,144,261
\$ 3,538,141	\$ 265,574	\$ 20,964	\$ 1,232,962	\$ 224,525	\$ 6,795,304

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

MARSHALL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	651,043
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Assets disposed of, net book value		(20,169)
Capital Outlay		2,459,521
Depreciation Expense		(966,333)

Notes Receivable principal received are receipted in the Governmental Funds as source of current financial resources. These transactions have no effect on net assets.		(6,400)
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Financing obligations and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions have no effect on net assets.

Financing Obligations		7,246
Bond Payments		<u>275,000</u>

Change in Net Assets of Governmental Activities	\$	<u><u>2,399,908</u></u>
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MARSHALL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

MARSHALL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 114,324
Total Current Assets	114,324
Net Assets	
Unrestricted	114,324
Total Net Assets	\$ 114,324

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 47,824
Total Operating Revenues	47,824
Operating Expenses	
Educational and Recreational	33,391
Total Operating Expenses	33,391
Operating Income	14,433
Nonoperating Revenues (Expenses)	
Interest Income	417
Total Nonoperating Revenues	417
Change In Net Assets	14,850
Total Net Assets - Beginning	99,474
Total Net Assets - Ending	\$ 114,324

The accompanying notes are an integral part of the financial statements.

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MARSHALL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

MARSHALL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Canteen Commissions	\$ 47,824
Payments to Vendors	<u>(33,391)</u>
Net Cash Provided By Operating Activities	<u>14,433</u>
Cash Flows From Investing Activities	
Interest Earned	<u>417</u>
Net Cash Provided By Investing Activities	<u>417</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,850
Cash and Cash Equivalents - July 1	<u>99,474</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 114,324</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	<u>\$ 14,433</u>
Net Cash Provided By Operating Activities	<u><u>\$ 14,433</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Marshall County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Marshall County Public Properties Corporation

The Marshall County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Corporation is blended with Marshall County's financial statements.

Discretely Presented Component Units

The component unit column in the combined financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organizations' separateness from the fiscal court's primary government.

Marshall County Refuse Disposal District

The Marshall County Fiscal Court appoints a voting majority of the Marshall County Refuse Disposal District governing board. The fiscal court is financially accountable and legally obligated for the debt of the refuse district. Financial information for the refuse district is presented discretely within Marshall County's financial statements.

Audited financial statements for the Marshall County Refuse District, a discretely presented component unit, may be requested by contacting the Marshall County Treasurer, 1101 Main Street, P.O. Box 114, Benton, Kentucky 42025.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Marshall County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Marshall County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Marshall County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Occupational Tax Fund - The primary purpose of this fund is to account for the disbursement of occupational tax funds. The primary source of revenue for this fund is transfers from the Occupational Tax Administrator Fund.

Occupational Tax Administrator Fund - This fund is used to account for occupational tax receipts. Occupational tax revenues are recorded in this fund and then transferred to the Occupational Tax Fund.

Public Properties Corporation Justice Center Debt Service Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Public Properties Corporation, a blended component unit of the fiscal court.

Federal Grant Fund - The purpose of this fund is to account for federal grant receipts and disbursements.

Public Properties Corporation Justice Center Capital Projects Fund – The purpose of this fund is to account for the construction activities of the Public Properties Corporation, a blended component unit of the fiscal court.

The primary government also has the following non-major funds: Emergency 911 Fund, Wireless 911 Fund, and Veterans Van Fund which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Public Properties Corporation Justice Center Debt Service and Public Properties Corporation Justice Center Capital Projects Fund are not budgeted. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Marshall County Fiscal Court: Marshall County Hospital, Jonathan Creek Water District, Aurora Sewer District, Marshall County Library, North Marshall Water District, Draffenville Sewer District, and Marshall County Cemetery Board.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Marshall County Fiscal Court: Purchase Area Industrial Authority Incorporated; Marshall County-Calvert City Riverport Authority; and Industrial Development Authority.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 2. Deposits and Investments

A. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits of the primary government and the component unit were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2008, the County had the following investments:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Money Market Accounts	Greater than 90 days	\$ 680,014

Interest Rate Risk. The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, money market accounts are not subject to interest rate risk.

Credit Risk. KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan certificates of deposit issued by any bank or savings and loan institution rates in one of the three highest categories by a nationally recognized rating agency. Bankers' acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, money market accounts are not subject to investment credit risk or concentrations of credit risk.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 2. Deposits and Investments

B. Investments (continued)

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2008, the County's investments are insured or registered or the securities are held by the County or the County's agent in the County's name.

Note 3. Receivables

A. Elva/New Harmony/Oak Level Fire District

The County loaned \$30,000 to the Elva/New Harmony/Oak Level Fire District on July 21, 1999, for the purpose of renovating the Fire Department. Terms of the agreement stipulate a 12-year repayment schedule, interest free. The Fire District is in substantial compliance with the terms of the agreement. As of June 30, 2008, the principal balance due was \$20,000.

B. Hardin/South Marshall Fire District

The County loaned \$32,000 to the Hardin/South Marshall Fire District on January 6, 2004, for the purpose of renovating the Fire Department. Terms of the agreement stipulate a 12-year repayment schedule, interest free. The Fire District is in substantial compliance with the terms of the agreement. As of June 30, 2008, the principal balance was \$6,400.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,983,109	\$ 31,123	\$	\$ 2,014,232
Construction In Progress		1,346,781		1,346,781
Total Capital Assets Not Being Depreciated	1,983,109	1,377,904		3,361,013
Capital Assets, Being Depreciated:				
Buildings	14,182,741			14,182,741
Vehicles and Equipment	4,939,738	263,479	(159,254)	5,043,963
Infrastructure	3,722,182	818,138		4,540,320
Total Capital Assets Being Depreciated	22,844,661	1,081,617	(159,254)	23,767,024
Less Accumulated Depreciation For:				
Buildings	(3,206,029)	(235,781)		(3,441,810)
Vehicles and Equipment	(2,820,829)	(347,810)	139,085	(3,029,554)
Infrastructure	(901,336)	(382,742)		(1,284,078)
Total Accumulated Depreciation	(6,928,194)	(966,333)	139,085	(7,755,442)
Total Capital Assets, Being Depreciated, Net	15,916,467	115,284	(20,169)	16,011,582
Governmental Activities Capital Assets, Net	\$ 17,899,576	\$ 1,493,188	\$ (20,169)	\$ 19,372,595

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 208,088
Protection to Persons and Property	159,946
Social Services	5,408
Recreation and Culture	35,020
Roads, Including Depreciation of General Infrastructure Assets	<u>557,871</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 966,333</u>

Capital asset activity for the discretely presented component unit for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Land and Land Improvements	805,287			805,287
Buildings	178,029			178,029
Vehicles and Equipment	1,054,160		(55,680)	998,480
Total Capital Assets Being Depreciated	2,037,476		(55,680)	1,981,796
Less Accumulated Depreciation For:				
Land and Land Improvements	(153,056)	(19,132)		(172,188)
Buildings	(39,113)	(3,376)		(42,489)
Vehicles and Equipment	(645,454)	(57,776)	50,110	(653,120)
Total Accumulated Depreciation	(837,623)	(80,284)	50,110	(867,797)
Capital Assets, Net	\$ 1,199,853	\$ (80,284)	\$ (5,570)	\$ 1,113,999

Depreciation expense was charged to functions of the discretely presented component unit as follows:

Marshall County Refuse Disposal District	<u>\$ 80,284</u>
Total Depreciation Expense - Discretely Presented Component Unit	<u>\$ 80,284</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2000

The Marshall County Public Properties Corporation entered into a bond issue on October 1, 2000, for the purpose of paying the cost of constructing a new county justice center facility and the cost of the issuance of the bonds. The issue amount of the bonds was \$8,005,000. The bonds will mature beginning March 1, 2003. The Administrative Office of the Courts (AOC) will be responsible for 74 percent of the cost of the bonds. The Public Properties Corporation will be responsible for the remaining balance of the cost. The outstanding balance as of June 30, 2008, was \$6,560,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 285,000	\$ 344,400
2010	300,000	329,437
2011	325,000	313,687
2012	340,000	296,625
2013	360,000	278,775
2014-2018	2,130,000	1,088,325
2019-2023	2,820,000	460,162
Totals	<u>\$ 6,560,000</u>	<u>\$ 3,111,411</u>

B. Marshall County Caring/Needline Building

On July 3, 2002, Marshall County Fiscal Court entered into a promissory note agreement with the Bank of Benton for the purchase of an office building. The principal amount was \$114,200 at an effective interest rate of 6.5 percent for a period of twenty years. In return, Marshall County leased the building to the Marshall County Caring/Needline. After an initial payment of \$50,000, which was used as a down payment on the purchase of the property, the Marshall County Caring/Needline has agreed to pay Marshall County Fiscal Court rental payments in amounts equal to the annual loan payments as stipulated in a lease agreement dated July 3, 2002. Upon the retirement of the debt, Marshall County Fiscal Court agrees to transfer the property to the Marshall County Caring/Needline. The outstanding balance of the note as of June 30, 2008 was \$54,512. The Marshall County Caring/Needline has paid additional amounts toward principal, and adjusted future principal and interest requirements are:

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

B. Marshall County Caring/Needline Building (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 6,899	\$ 3,543
2010	7,348	3,095
2011	7,825	2,617
2012	8,334	2,109
2013	8,876	1,567
2014	15,230	989
Totals	<u>\$ 54,512</u>	<u>\$ 13,920</u>

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 6,835,000	\$	\$ 275,000	\$ 6,560,000	\$ 285,000
Financing Obligations	61,758		7,246	54,512	6,899
Governmental Activities					
Long-term Liabilities	<u>\$ 6,896,758</u>	<u>\$ 0</u>	<u>\$ 282,246</u>	<u>\$ 6,614,512</u>	<u>\$ 291,899</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$358,837 in interest on bonds and \$2,754 in interest on financing obligations.

Note 7. Related Party Transactions

A. Timber Bridge Company

During the fiscal year, the County conducted business with the Timber Bridge Company of Kentucky for bridge materials. In November 2006, the County Judge/Executive filed a statement of Financial Disclosure with the Marshall County Ethics Commission stating that he was employed as a salesman for Timber Bridge, and earned in excess of \$5,000 during the preceding calendar year. A letter dated August 17, 2001, from Timber Bridge Company of Kentucky, confirming its ongoing agreement with the County Judge/Executive, states that the County Judge/Executive is not eligible for any commissions on sales in Marshall County. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

Note 7. Related Party Transactions (Continued)

B. Bank of Benton

During the fiscal year, the County maintained deposits with the Community Financial Services, Inc., formerly the Bank of Benton. In November 2006, the County Judge/Executive filed a Statement of Financial Disclosure with the Marshall County Ethics Commission stating that he owned an interest of at least \$10,000 in the Bank of Benton, and earned in excess of \$5,000 during the preceding calendar year from this interest. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.

Note 8. Employee Retirement System

The fiscal court and the Marshall County Refuse Disposal District, a discretely presented component unit, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2008, Marshall County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Landfill Closure and Post-Closure Costs

In 2002, the legislature passed House Bill No. 174 that among other things, provided for state assumption of responsibility for the costs of closure and remedial obligations for inactive solid waste landfills that ceased accepting waste prior to July 1, 1992. This is implemented as amendments to KRS 244, Subchapter 43. The Kentucky Division of Waste Management (Division) has determined that the Marshall County Landfill qualifies under this program for state assistance. However, as a necessary condition for performing this work, the Division required a legal right of entry granting permission for assessment and construction activities on the subject property. On February 8, 2005, the Marshall County Judge/Executive signed the right of entry to the Commonwealth of Kentucky and it's authorized agents the right to enter upon this land for the purpose of performing such activities.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

Note 11. Subsequent Event

On November 5, 2008, the Marshall County Fiscal Court approved an ordinance approving a lease with the Kentucky Association of Counties Leasing Trust for the financing of Phase II of the Water Vision 20/20 project in the amount of \$1,800,000.

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,555,000	\$ 2,555,000	\$ 2,261,741	\$ (293,259)
In Lieu Tax Payments	623,000	623,000	1,012,021	389,021
Excess Fees	158,600	158,600	384,930	226,330
Licenses and Permits	100,000	100,000	110,566	10,566
Intergovernmental Revenue	304,400	304,400	341,025	36,625
Charges for Services	320,000	320,000	316,120	(3,880)
Miscellaneous	205,000	205,000	237,137	32,137
Interest	25,000	25,000	31,617	6,617
Total Revenues	4,291,000	4,291,000	4,695,157	404,157
EXPENDITURES				
General Government	2,080,750	2,406,364	2,172,391	233,973
Protection to Persons and Property	501,950	614,964	522,004	92,960
General Health and Sanitation	159,300	179,709	140,958	38,751
Social Services	407,500	454,128	440,649	13,479
Recreation and Culture	18,500	82,683	82,683	
Debt Service	153,000	153,000	114,836	38,164
Capital Projects	75,000	75,000	75,000	
Administration	3,195,000	2,349,924	2,344,016	5,908
Total Expenditures	6,591,000	6,315,772	5,892,537	423,235
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(2,300,000)	(2,024,772)	(1,197,380)	827,392
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	1,500,000	1,500,000	1,561,041	61,041
Transfers to Other Funds			(151,319)	(151,319)
Total Other Financing Sources (Uses)	1,500,000	1,500,000	1,409,722	(90,278)
Net Changes in Fund Balance	(800,000)	(524,772)	212,342	737,114
Fund Balance - Beginning	800,000	800,000	643,862	(156,138)
Fund Balance - Ending	\$ 0	\$ 275,228	\$ 856,204	\$ 580,976

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,091,000	\$ 1,091,000	\$ 1,083,059	\$ (7,941)
Charges for Services	21,000	21,000	18,854	(2,146)
Miscellaneous	11,000	11,000	2,843	(8,157)
Interest	17,000	17,000	15,130	(1,870)
Total Revenues	1,140,000	1,140,000	1,119,886	(20,114)
EXPENDITURES				
Roads	1,047,000	1,087,890	1,074,515	13,375
Administration	244,000	425,713	418,734	6,979
Total Expenditures	1,291,000	1,513,603	1,493,249	20,354
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(151,000)	(373,603)	(373,363)	240
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			150,000	150,000
Total Other Financing Sources (Uses)			150,000	150,000
Net Changes in Fund Balance	(151,000)	(373,603)	(223,363)	150,240
Fund Balance - Beginning	151,000	151,000	232,034	81,034
Fund Balance - Ending	\$ 0	\$ (222,603)	\$ 8,671	\$ 231,274

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,361,000	\$ 1,361,000	\$ 1,954,064	\$ 593,064
Charges for Services	30,000	30,000	37,375	7,375
Miscellaneous	22,000	22,000	30,490	8,490
Interest	8,000	8,000	8,155	155
Total Revenues	1,421,000	1,421,000	2,030,084	609,084
EXPENDITURES				
Protection to Persons and Property	1,346,000	1,427,754	1,320,024	107,730
Administration	325,000	517,844	508,310	9,534
Total Expenditures	1,671,000	1,945,598	1,828,334	117,264
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(250,000)	(524,598)	201,750	726,348
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	100,000	100,000		(100,000)
Total Other Financing Sources (Uses)	100,000	100,000		(100,000)
Net Changes in Fund Balance	(150,000)	(424,598)	201,750	626,348
Fund Balance - Beginning	150,000	150,000	65,698	(84,302)
Fund Balance - Ending	\$ 0	\$ (274,598)	\$ 267,448	\$ 542,046

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 20,000	\$ 20,000	\$ 17,605	\$ (2,395)
Miscellaneous			703	703
Total Revenues	20,000	20,000	18,308	(1,692)
EXPENDITURES				
General Government	63,900	67,075	37,926	29,149
General Health and Sanitation	700,000	700,000	200,000	500,000
Recreation and Culture	565,000	720,334	605,433	114,901
Roads	1,995,100	2,065,132	1,167,511	897,621
Administration	596,000	161,862	159,053	2,809
Total Expenditures	3,920,000	3,714,403	2,169,923	1,544,480
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(3,900,000)	(3,694,403)	(2,151,615)	1,542,788
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	3,400,000	3,400,000	1,900,000	(1,500,000)
Total Other Financing Sources (Uses)	3,400,000	3,400,000	1,900,000	(1,500,000)
Net Changes in Fund Balances	(500,000)	(294,403)	(251,615)	42,788
Fund Balances - Beginning	500,000	500,000	632,430	132,430
Fund Balances - Ending	\$ 0	\$ 205,597	\$ 380,815	\$ 175,218

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

OCCUPATIONAL TAX ADMINISTRATOR FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,400,000	\$ 3,400,000	\$ 4,241,134	\$ 841,134
Interest	30,000	30,000	106,812	76,812
Total Revenues	3,430,000	3,430,000	4,347,946	917,946
EXPENDITURES				
General Government	150,000	335,539	335,539	
Recreation and Culture	260,000	12,372		12,372
Total Expenditures	410,000	347,911	335,539	12,372
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	3,020,000	3,082,089	4,012,407	930,318
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(5,000,000)	(5,000,000)	(3,250,000)	1,750,000
Total Other Financing Sources (Uses)	(5,000,000)	(5,000,000)	(3,250,000)	1,750,000
Net Changes in Fund Balances	(1,980,000)	(1,917,911)	762,407	2,680,318
Fund Balances - Beginning	1,980,000	1,980,000	2,775,734	795,734
Fund Balances - Ending	\$ 0	\$ 62,089	\$ 3,538,141	\$ 3,476,052

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 3,350,000	\$ 3,350,000	\$ 2,006,218	\$ (1,343,782)
Interest			8,170	8,170
Total Revenues	<u>3,350,000</u>	<u>3,350,000</u>	<u>2,014,388</u>	<u>(1,335,612)</u>
EXPENDITURES				
General Health and Sanitation	<u>3,625,000</u>	<u>3,625,000</u>	<u>1,807,478</u>	<u>1,817,522</u>
Total Expenditures	<u>3,625,000</u>	<u>3,625,000</u>	<u>1,807,478</u>	<u>1,817,522</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(275,000)</u>	<u>(275,000)</u>	<u>206,910</u>	<u>481,910</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out to Other Funds			<u>(211,041)</u>	<u>(211,041)</u>
Total Other Financing Sources (Uses)			<u>(211,041)</u>	<u>(211,041)</u>
Net Changes in Fund Balances	<u>(275,000)</u>	<u>(275,000)</u>	<u>(4,131)</u>	<u>270,869</u>
Fund Balances - Beginning	<u>275,000</u>	<u>275,000</u>	<u>269,705</u>	<u>(5,295)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 265,574</u>	<u>\$ 265,574</u>

MARSHALL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation to the General Fund

Total Revenues-Budgetary Basis	\$ 4,695,157
Debt payments made by other entity in accordance with lease agreement	<u>10,000</u>
Total Revenues-Modified Cash Basis	<u><u>4,705,157</u></u>
Total Expenditures-Budgetary Basis	5,892,537
Transfer to Debt Service Fund	(114,836)
Debt payments made by other entity in accordance with lease agreement	<u>10,000</u>
Total Expenditures-Modified Cash Basis	<u><u>5,787,701</u></u>
Total Other Financing Uses-Budgetary Basis	1,259,722
Transfer from Occupational Tax Administrator Fund to Payroll Fund	150,000
Transfer to Debt Service Fund	<u>(114,836)</u>
Total Other Financing Uses-Modified Cash Basis	<u><u>\$ 1,294,886</u></u>

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MARSHALL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

MARSHALL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

	Emergency 911 Fund	Wireless 911 Fund	Veteran's Van Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 129,903	\$ 93,260	\$ 1,362	\$ 224,525
Total Assets	<u>\$ 129,903</u>	<u>\$ 93,260</u>	<u>\$ 1,362</u>	<u>\$ 224,525</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	\$ 129,903	\$ 93,260	\$ 1,362	\$ 224,525
Total Fund Balances	<u>\$ 129,903</u>	<u>\$ 93,260</u>	<u>\$ 1,362</u>	<u>\$ 224,525</u>

The notes to the financial statements are an integral part of this statement.

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**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

For The Year Ended June 30, 2008

MARSHALL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	Emergency 911 Fund	Wireless 911 Fund	Veteran's Van Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$ 273,221	\$	\$	\$ 273,221
Intergovernmental		140,308		140,308
Miscellaneous			6,944	6,944
Interest	11,304		50	11,354
	<u>284,525</u>	<u>140,308</u>	<u>6,994</u>	<u>431,827</u>
Total Revenues				
	<u>284,525</u>	<u>140,308</u>	<u>6,994</u>	<u>431,827</u>
EXPENDITURES				
Protection to Persons and Property	212,387	179,204		391,591
Other Transportation Facilities and Services			6,734	6,734
Administration	50,657	54,759		105,416
	<u>263,044</u>	<u>233,963</u>	<u>6,734</u>	<u>503,741</u>
Total Expenditures				
	<u>263,044</u>	<u>233,963</u>	<u>6,734</u>	<u>503,741</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>21,481</u>	<u>(93,655)</u>	<u>260</u>	<u>(71,914)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	1,319			1,319
Total Other Financing Sources (Uses)	<u>1,319</u>			
Net Change in Fund Balances	22,800	(93,655)	260	(70,595)
Fund Balances - Beginning	<u>107,103</u>	<u>186,915</u>	<u>1,102</u>	<u>295,120</u>
Fund Balances - Ending	<u>\$ 129,903</u>	<u>\$ 93,260</u>	<u>\$ 1,362</u>	<u>\$ 224,525</u>

The notes to the financial statements are an integral part of this statement.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



The Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Report On Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated October 22, 2008. Our report was modified to include a reference to other auditors. Marshall County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marshall County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marshall County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marshall County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Marshall County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of Marshall County's financial statements that is more than inconsequential will not be prevented or detected by Marshall County's internal control. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Fiscal Court Lacks Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Marshall County's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

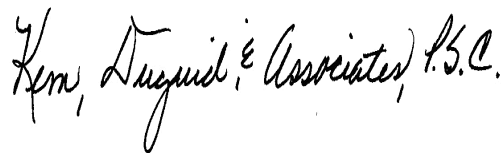
As part of obtaining reasonable assurance about whether Marshall County's financial statements for the year ended June 30, 2008, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations:

- The Fiscal Court Should Fix Compensation For County Employees

The Marshall County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Marshall County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Kem, Duguid & Associates, PSC
Certified Public Accountants

October 22, 2008

**MARSHALL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

MARSHALL COUNTY COMMENTS AND RECOMMENDATIONS

For The Year Ended June 30, 2008

STATE LAW AND REGULATIONS

The Fiscal Court Should Fix Compensation For County Employees

During our test of payroll expenditures, we were unable to find a list of employees and their corresponding compensation approved by the fiscal court. Fiscal court approved compensation for its employees by pay ranges. KRS 64.530(1) requires the fiscal court of each county to fix the compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer. We recommend that fiscal court approve a fiscal court order; listing the name of employees, job titles, and the specific compensation of each employee under its direction and control. Fiscal court should also approve any changes in compensation.

County Judge/Executive Mike Miller's Response: We will ask the Fiscal Court to include this schedule in their minutes.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS

The Fiscal Court Lacks Adequate Segregation Of Duties

The County has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the County has limited options for establishing an adequate segregation of duties. We recommend the county consider implementing the following procedures to help offset this internal control weakness:

- One employee should open the mail, make a list of all receipts, and restrictively endorse all items received as "for deposit only".
- The receipts should then go to another employee for further processing and deposit to the bank.
- Someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.
- Receipts collected by other departments should be recomputed or traced to source documents on occasion.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. This could be documented by the person initialing and dating the bank statement.
- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy.
- The independent person should then sign off on the bank reconciliations to verify completion.
- An independent person could compare Fiscal Court order approvals to invoices and checks prior to payment.

County Judge/Executive Mike Miller's Response: We understand that there are new rules regarding internal control that requires this comment be included in the audit report. We will review the above suggestions and implement them when we feel that the gain in internal control thru increased segregation of duties outweighs any loss of efficiency.

